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# POWER XINCHEN

新 晨 动 力

## XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015 AND CHANGE IN USE OF PROCEEDS

The board of directors (the “**Board**”) of Xinchen China Power Holdings Limited (the “**Company**”) announces the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2015 as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	3	3,269,331	2,652,446
Cost of sales		(2,759,218)	(2,122,096)
Gross profit		510,113	530,350
Other income and gain	4(a)	72,710	44,133
Selling and distribution expenses		(66,137)	(64,420)
Administrative expenses		(141,774)	(117,913)
Finance costs	5	(49,879)	(43,591)
Other expenses and losses	4(b)	(54,076)	(30,849)
Share of result of a joint venture		(198)	(694)
Profit before tax		270,759	317,016
Income tax expense	6	(46,094)	(45,470)
Profit and total comprehensive income for the year attributable to owners of the Company	7	224,665	271,546
Earnings per share – Basic (RMB)	9	0.175	0.211

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2015*

	<i>NOTES</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,410,030	951,903
Prepaid lease payments		94,306	96,619
Investment properties		226,090	233,381
Intangible assets		369,933	284,998
Interest in a joint venture		49,108	49,306
Deferred tax assets		6,078	6,923
		<b>2,155,545</b>	<b>1,623,130</b>
<b>CURRENT ASSETS</b>			
Inventories		440,999	572,247
Prepaid lease payments		2,308	2,308
Trade and other receivables	<i>10</i>	597,888	767,387
Amounts due from related companies	<i>11</i>	1,337,400	970,239
Loan to a shareholder		30,862	29,237
Tax recoverable		5,450	–
Pledged/restricted bank deposits		295,857	424,307
Bank balances and cash		288,212	353,947
		<b>2,998,976</b>	<b>3,119,672</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>12</i>	1,193,033	1,377,719
Amounts due to related companies		148,060	268,743
Bank borrowings due within one year	<i>13</i>	350,500	220,500
Income tax payables		–	5,518
		<b>1,691,593</b>	<b>1,872,480</b>
<b>NET CURRENT ASSETS</b>		<b>1,307,383</b>	<b>1,247,192</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,462,928</b>	<b>2,870,322</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings due after one year	<i>13</i>	737,803	367,140
Deferred income		45,704	42,889
		<b>783,507</b>	<b>410,029</b>
<b>NET ASSETS</b>		<b>2,679,421</b>	<b>2,460,293</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>14</i>	10,466	10,500
Reserves		2,668,955	2,449,793
<b>TOTAL EQUITY</b>		<b>2,679,421</b>	<b>2,460,293</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands on 10 March 2011. Brilliance China Automotive Holdings Limited (“Brilliance China”, Brilliance China and its subsidiaries collectively referred to as “Brilliance China Group”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and Sichuan Province Yibin Wuliangye Group Co., Ltd.\* (四川省宜賓五糧液集團有限公司) (“Wuliangye”, Wuliangye and its subsidiaries collectively referred to as “Wuliangye Group”), a state owned enterprise registered in the People’s Republic of China (the “PRC”), are able to exercise significant influence over the Company. In March 2013, the Company completed the listing of its shares on the Main Board of the Stock Exchange. The addresses of the registered office and the principal place of business of the Company are disclosed in corporate information section of the annual report.

The principal activities of the Company and Southern State Investment Limited are investment holding. The principal activity of Mianyang Xincheng Engine Co., Limited\* (綿陽新晨動力機械有限公司) (“Mianyang Xincheng”) is the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC.

The consolidated financial statements are presented in Renminbi (“RMB”), which is same as the functional currency of the Company and its subsidiaries.

### 2. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the consolidated financial statements, the Group has adopted the Hong Kong Accounting Standards (“HKASs”), Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and interpretations for the first time in this year, which are mandatorily effective for the accounting period beginning on 1 January 2015.

The application of the new and revised HKASs and HKFRSs in the current year has had no material impact on the Group’s consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not applied the following new and revised HKASs and HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
Amendments to HKFRS 10 and HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Bearer Plants <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>3</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>

<sup>1</sup> *Effective date deferred indefinitely.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*

Except as described below, the directors of the Company consider that the application of the other new and revised standards and amendments is unlikely to have a material impact on the Group's financial position and performance as well as disclosure.

### 3. REVENUE AND SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided.

#### Segment revenue and segment results

The Board reviews operating results and financial information on a product by product basis. Each individual engine product constitutes an operating segment. For certain operating segments that exhibit similar long-term financial performance as they have similar economic characteristics, are produced by using similar production processes and are distributed and sold to similar classes of customers, their segment information is aggregated into a single reportable operating segment. The Group has three reportable operating segments as follows:

- (1) Gasoline engines;
- (2) Diesel engines; and
- (3) Engine components and service income.

The following is an analysis of the Group's revenue and results by reportable segment:

#### For the year ended 31 December 2015

	<b>Gasoline engines</b>	<b>Diesel engines</b>	<b>Engine components and service income</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue – external	2,568,436	262,772	438,123	3,269,331
Segment results	327,697	38,288	144,128	510,113
Unallocated income				72,710
Unallocated expenses				
Selling and distribution expenses				(66,137)
Administrative expenses				(141,774)
Finance costs				(49,879)
Other expenses and losses				(54,076)
Share of result of a joint venture				(198)
Profit before tax				270,759

**For the year ended 31 December 2014**

	<b>Gasoline engines RMB'000</b>	<b>Diesel engines RMB'000</b>	<b>Engine components and service income RMB'000</b>	<b>Total RMB'000</b>
Segment revenue – external	<u>1,950,290</u>	<u>423,311</u>	<u>278,845</u>	<u>2,652,446</u>
Segment results	<u>321,620</u>	<u>75,120</u>	<u>133,610</u>	530,350
Unallocated income				44,133
Unallocated expenses				
Selling and distribution expenses				(64,420)
Administrative expenses				(117,913)
Finance costs				(43,591)
Other expenses and losses				(30,849)
Share of result of a joint venture				<u>(694)</u>
Profit before tax				<u>317,016</u>

Other segment information included in the measurement of segment results:

	<b>Gasoline engines RMB'000</b>	<b>Diesel engines RMB'000</b>	<b>Engine components and service income RMB'000</b>	<b>Unallocated RMB'000</b>	<b>Total RMB'000</b>
<b>For the year ended 31 December 2015</b>					
Depreciation and amortisation	65,387	6,109	26,392	25,632	123,520
Provision of inventories	1,091	391	–	–	1,482
<b>For the year ended 31 December 2014</b>					
Depreciation and amortisation	40,867	8,800	–	14,009	63,676
Provision of inventories	647	209	–	–	856

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment before the allocation of selling and distribution expenses, administrative expenses, finance costs, other income and gain/expenses and losses and share of result of a joint venture. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

The assets and liabilities of the Group are regularly reviewed by the Board as a whole and no discrete financial information on segment assets and segment liabilities is available, therefore the measure of total assets and total liabilities by reportable operating segment is not presented.

## Geographical information

All of the Group's operations and non-current assets are located in the PRC; and all of the Group's revenue from external customers is generated in the PRC, which is the country of domicile of Mianyang Xincheng.

## Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of engines and engine components to certain related parties as disclosed.

### 4(a). OTHER INCOME AND GAIN

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Bank interest income	8,156	9,852
Government grants	39,199	25,501
Gain on disposal of property, plant and equipment	8	63
Rental income under operating lease, net outgoing expenses	25,055	7,868
Others	292	849
	<u>72,710</u>	<u>44,133</u>

### 4(b). OTHER EXPENSE AND LOSSES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Research expense	19,465	23,847
Exchange losses (gain), net	32,673	(2,100)
Others	1,938	9,102
	<u>54,076</u>	<u>30,849</u>

### 5. FINANCE COSTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interest on borrowings wholly repayable within five years:		
Bank loans	38,800	28,684
Discounted bills	12,103	20,174
	<u>50,903</u>	48,858
Less: amounts capitalised	<u>(1,024)</u>	<u>(5,267)</u>
	<u>49,879</u>	<u>43,591</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 3.45% (2014: 5.4%) per annum to expenditure on qualifying assets.

## 6. INCOME TAX EXPENSE

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
PRC Enterprise Income Tax		
Current tax	46,678	53,376
Overprovision in prior year	(1,429)	(1,134)
	<u>45,249</u>	<u>52,242</u>
Deferred tax	845	(6,772)
	<u><u>46,094</u></u>	<u><u>45,470</u></u>

Mianyang Xincheng enjoyed preferential enterprise income tax rates which were lower than the standard tax rate during both years as approved by the relevant tax authorities in the PRC.

According to announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax Related with enhancing the Western Region Development Strategy, Mianyang Xincheng was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2020. Mianyang Xincheng has to be assessed by the tax authority in the first year and adopted archival filing management in subsequent years. Accordingly, Mianyang Xincheng was subject to 15% enterprise income tax rate for the year ended 31 December 2015 (2014: 15%).

No Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

## 7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Directors' remuneration	10,948	8,299
Other staff costs	147,325	138,046
Contributions to retirement benefits scheme	22,762	18,841
	<u>181,035</u>	<u>165,186</u>
Share-based payment expenses	–	8,319
Depreciation of property, plant and equipment	102,741	50,999
Depreciation of investment properties	7,291	1,717
Amortisation of prepaid lease payments	2,313	2,708
Amortisation of intangible assets (included in cost of sales)	11,175	8,252
	<u>123,520</u>	<u>63,676</u>
Auditors' remuneration	1,129	1,082
Allowance for doubtful debts	539	90
Included in cost of sales:		
Cost of inventories recognised as expense	2,759,218	2,122,096
Allowance for provision of inventories	1,482	856
Provision for warranty, net	17,176	10,741
	<u><u>2,778,005</u></u>	<u><u>2,133,785</u></u>

## 8. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2015 and 2014, nor has any dividend been proposed since the end of the reporting period.

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and weighted average number of shares of 1,286,016,471 (2014: 1,287,407,794), after taking into effect of shares repurchased, for the year ended 31 December 2015.

No diluted earnings per share is presented as there was no potential dilutive ordinary share outstanding during the year or as at the end of reporting period.

## 10. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables	179,020	241,347
<i>Less: Allowance for doubtful debts</i>	<u>(885)</u>	<u>(346)</u>
Trade receivables, net	178,135	241,001
Bills receivable	<u>259,235</u>	<u>333,475</u>
Total trade and bills receivables	437,370	574,476
Prepayments for purchase of raw materials and engine components	9,289	20,661
Other receivables <i>(Note)</i>	<u>151,229</u>	<u>172,250</u>
	<u><u>597,888</u></u>	<u><u>767,387</u></u>

*Note:*

*Included in the balance is value added tax recoverable of RMB125,004,000 (2014: RMB146,552,000).*

The Group generally allows a credit period of 30 to 60 days from the invoice date for trade receivables and a further 3 to 6 months for bills receivable to its external customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 month	63,343	136,999
Over 1 month but within 2 months	37,863	47,042
Over 2 months but within 3 months	24,560	3,253
Over 3 months but within 6 months	24,685	18,772
Over 6 months but within 1 year	13,021	21,195
Over 1 year	<u>14,663</u>	<u>13,740</u>
	<u><u>178,135</u></u>	<u><u>241,001</u></u>

The following is an aged analysis of bills receivable presented based on the bills issue date at the end of the reporting period:

	<b>2015</b> <b>RMB'000</b>	2014 <i>RMB'000</i>
Within 3 months	<b>178,585</b>	160,155
Over 3 months but within 6 months	<b>80,080</b>	170,937
Over 6 months but within 1 year	<b>570</b>	2,383
	<u><b>259,235</b></u>	<u>333,475</u>

#### 11. AMOUNTS DUE FROM RELATED COMPANIES

	<b>2015</b> <b>RMB'000</b>	2014 <i>RMB'000</i>
Trade receivables	<b>1,047,815</b>	778,904
Bills receivable	<b>263,263</b>	190,832
Prepayment	<b>24,469</b>	–
	<u><b>1,335,547</b></u>	<u>969,736</u>

Amounts due from related companies are unsecured, interest free and with a credit period ranging from 45 days to 90 days from the invoice and a further 3 to 6 months for bills receivable. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	<b>2015</b> <b>RMB'000</b>	2014 <i>RMB'000</i>
Within 3 months	<b>689,339</b>	253,856
Over 3 months but within 6 months	<b>55,068</b>	197,155
Over 6 months but within 1 year	<b>234,714</b>	327,893
Over 1 year	<b>68,694</b>	–
	<u><b>1,047,815</b></u>	<u>778,904</u>

The following is an aged analysis of bills receivable presented based on the bills issue date at the end of the reporting period:

	<b>2015</b> <b>RMB'000</b>	2014 <i>RMB'000</i>
Within 3 months	<b>200,188</b>	155,507
Over 3 months but within 6 months	<b>63,075</b>	33,000
Over 6 months but within 1 year	<b>–</b>	2,325
	<u><b>263,263</b></u>	<u>190,832</u>

The Group's credit policy is that the credit is offered to related companies following financial assessment and an established payment record.

## 12. TRADE AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade payables	501,850	383,155
Bills payable	<u>380,796</u>	<u>698,183</u>
Total trade and bills payables	882,646	1,081,338
Accrued purchase of raw materials	192,183	165,873
Construction payables	17,921	22,333
Payroll and welfare payables	44,838	42,271
Advances from customers	11,315	13,355
Provision for warranty <sup>(Note)</sup>	4,006	3,670
Retention money	33,977	42,013
Other payables	<u>6,147</u>	<u>6,866</u>
	<u><u>1,193,033</u></u>	<u><u>1,377,719</u></u>

The credit period of trade payables and bills payable is normally within 3 months and 3 to 6 months, respectively. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 3 months	282,651	146,827
Over 3 months but within 6 months	181,570	210,380
Over 6 months but within 1 year	27,105	15,378
Over 1 year but within 2 year	<u>10,524</u>	<u>10,570</u>
	<u><u>501,850</u></u>	<u><u>383,155</u></u>

The following is an aged analysis of bills payable presented based on the bills issue date at the end of each reporting period:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 3 months	243,080	301,719
Over 3 months but within 6 months	137,716	325,281
Over 6 months but within 1 year	<u>-</u>	<u>71,183</u>
	<u><u>380,796</u></u>	<u><u>698,183</u></u>

Note:

*The balance of provision for warranty represents management's best estimate of the Group's liability under the one year warranty granted on the sale of automotive engines and automotive engines components, based on prior experience and industry averages for defective products at the end of each reporting period.*

### 13. BANK BORROWINGS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Carrying amount repayable:		
Within one year	350,500	220,500
More than one year, but not more than five years	<u>737,803</u>	<u>367,140</u>
	<b>1,088,303</b>	587,640
<i>Less:</i> amounts shown under current liabilities	<u>(350,500)</u>	<u>(220,500)</u>
Amounts shown under non-current liabilities	<u><b>737,803</b></u>	<u>367,140</u>
Secured	78,500	38,500
Unsecured	<u>1,009,803</u>	<u>549,140</u>
	<u><b>1,088,303</b></u>	<u>587,640</u>

In 2015, other than a loan of principal amounting to approximately RMB740,270,000 (2014: RMB367,140,000) is denominated in United States Dollars, i.e. US\$114,000,000 (2014: US\$60,000,000), the remaining loans are all denominated in RMB.

### 14. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

	Number of shares	Amount <i>HK\$</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At date of incorporation, 1 January 2014, 31 December 2014 and 2015	<u>8,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2012 and 31 December 2012	940,199,794	9,401,998
Issue of new shares on 12 March 2013	313,400,000	3,134,000
Issue of new shares on 9 April 2013	<u>33,808,000</u>	<u>338,080</u>
At 31 December 2013, 1 January 2014 and 31 December 2014	<u>1,287,407,794</u>	<u>12,874,078</u>
Repurchase of shares <i>(Note)</i> :		
Repurchase of shares on 31 August 2015	(1,066,000)	(10,660)
Repurchase of shares on 1 September 2015	(1,000,000)	(10,000)
Repurchase of shares on 2 September 2015	(927,000)	(9,270)
Repurchase of shares on 4 September 2015	(1,000,000)	(10,000)
Repurchase of shares on 7 September 2015	<u>(203,000)</u>	<u>(2,030)</u>
At 31 December 2015	<u>1,283,211,794</u>	<u>12,832,118</u>

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Share capital presented in consolidated statement of financial position	<u>10,466</u>	<u>10,500</u>

*Note:*

*In 2015, the Company repurchased on the Stock Exchange a total of 4,196,000 shares of HK\$0.01 each of the Company, at an aggregate consideration after expense of approximately HK\$6,746,000 (approximately RMB5,537,000), all the shares were cancelled in 2015. The nominal value of the cancelled shares was credit to share premium and the aggregate consideration paid was debited to the share premium of the Group.*

## 15. RELATED PARTY DISCLOSURES

Other than those disclose elsewhere in the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
<b>Sale of goods</b>		
Brilliance China Group	1,835,942	743,473
Huachen Group <sup>(1)</sup>	661,135	682,984
Dongfeng JV <sup>(2)</sup>	134	16,314
	<u>2,497,211</u>	<u>1,442,771</u>
<b>Purchase of goods</b>		
Brilliance China Group	1,193,579	320,598
Huachen Group	1,184	24,693
Wuliangye Group	92,921	183,172
	<u>1,287,684</u>	<u>528,463</u>
<b>Purchase of productions line and inventories</b>		
Brilliance China Group	384,573 <sup>(3)</sup>	–
Huachen Group	–	394,281 <sup>(4)</sup>
	<u>384,573</u>	<u>394,281</u>

*Notes:*

- (1) *Huachen Automotive Group Holdings Company Limited\* (華晨汽車集團控股有限公司) (“Huachen”) and its subsidiaries collectively referred to as “Huachen Group”.*
- (2) *Changzhou Dongfeng Xincheng Engine Co., Ltd.\* (常州東風新晨動力機械有限公司) (“Dongfeng JV”).*
- (3) *RMB31,321,000 inventories inclusive.*
- (4) *RMB37,646,000 inventories inclusive.*

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
<b>Rental charged and auxiliary services</b>		
Brilliance China Group	3,311	11,390
Huachen Group	5,599	12,037
Wuliangye Group	2,600	263
	<u>11,510</u>	<u>23,690</u>
<b>Rental income</b>		
Brilliance China Group	<u>31,588</u>	<u>12,117</u>
<b>Maintenance and construction cost charged</b>		
Wuliangye Group	<u>3,605</u>	<u>4,111</u>
<b>Logistics services</b>		
Wuliangye Group	<u>2,305</u>	–
<b>Cleaning and greening services</b>		
Wuliangye Group	<u>2,579</u>	–
<b>Consulting service</b>		
Brilliance China Group	<u>35,943</u>	–

## **BUSINESS REVIEW AND PROSPECT**

According to the China Association of Automobile Manufacturers, there was a slowdown in the growth of automobile industry in China in 2015. The PRC government cut the purchase tax of small engine vehicles by half since October 2015, which stimulated the demand for passenger vehicles in the fourth quarter of 2015.

In 2015, the Group recorded the total sales of approximately RMB3,269.33 million, representing an increase of approximately 23.3%, as compared with 2014. The increase in the total sales was mainly driven by an increase in the sale of products to BMW Brilliance Automotive Ltd. (“**BMW Brilliance Automotive**”), which offset the impact brought by a big decline in the Group’s traditional business. As the Group secured a sizable amount of offshore bank loan denominated in United States Dollar in the past two years and in light of the recent depreciation in RMB against United States Dollar, the Group recorded an unrealized foreign exchange loss of approximately RMB32.67 million in 2015. As a result, the Group recorded a net profit of approximately RMB224.67 million in 2015, representing a decrease of approximately 17.3% as compared with 2014.

Although the purchase tax cut remains effective till end of 2016, automobile manufacturers remain conservative on their production and sale planning in light of the uncertainty in the China’s economy and weak consumers’ sentiment. It is expected that automobile manufacturers would take a more cautious approach in their business planning and inventory management and would become more aggressive on costs reduction, both the demand and pricing of the Group’s engines and engine parts will be adversely affected in the near future.

In the indigenous Chinese branded automobile segment, competition has been very tense among automobile manufacturers and market leaders are taking up more market share from the other automobile manufacturers over the years. Although both sale volume and market share of indigenous Chinese branded automobiles in the overall automobile segment in China increased in 2015, the demand for the Group’s traditional engines remained weak as most of the clients of Group for the traditional engines are second or third tier Chinese branded automobile manufacturers. The current industry trend may not be favourable to the Group’s traditional business. Therefore, we expect that the business outlook of the Group’s traditional business remains full of challenges in coming years. The Group has been working hard on costs reduction and trying to expand its customer base by way of offering quality engines with advanced technology. With the support from BMW AG, in June 2015, the Group was authorised by BMW AG to produce and sell prince engines under the Group’s own brand to its customers. The prince engine will be one of the Group’s core engine products in the future. The Group will leverage on this new, advanced and high quality engine to maintain and expand its market share, in particular, by way of building and strengthening its relationship with the market leaders in the indigenous Chinese branded automobile segment. Currently, the Group is still in the process of formulating the industrialisation plan of prince engine production facilities and working with its existing and potential suppliers to localise the sourcing and processing of raw materials for the production of prince engines in China.

As far as the Group's operation is concerned, the Group has relocated most of its operation to its new production site in Mianyang and plans to relocate the diesel engine production line after the Group finalises the upgrade plan of the production line. It is expected that the upgrade plan of the diesel engine production line will be implemented during the relocation process. In 2011, the Group entered into joint venture agreement with Dongfeng Automobile Co., Ltd. ("**Dongfeng**") in relation to the establishment of Dongfeng JV for the purpose of constructing designated engine production facility for Dongfeng's light-duty vehicles. Since then, the Group has been working with Dongfeng to execute the development plan. Given that there was a slowdown in the growth of China's economy and automobile industry, the parties agreed to suspend the execution of the development plan at the moment pending the adjustment of Dongfeng JV's new business plan in response to the change in the industry landscape.

The Group has been a connection rod supplier to BMW Brilliance Automotive since 2014 and secured crankshaft business from BMW Brilliance Automotive in 2015. The Group was guided by the technicians coming from BMW Brilliance Automotive and BMW AG from its planning stage to production stage and acquired the technical knowhow of producing high quality core engine parts by leveraging on its supply of products to BMW Brilliance Automotive. Currently, the Group is discussing with its potential customers regarding the supply of engine parts in China and overseas. In particular, the Group is negotiating with BMW Brilliance Automotive and BMW AG regarding the feasibility of exporting crankshafts to BMW AG. In addition, the Group is also exploring other business opportunities with its existing and potential customers.

The Group has been spending a lot of effort in developing its research and development capabilities. The Group achieved a breakthrough on its research and development capabilities by leveraging on the support from its business partners. The Group is still in discussion with its business partners regarding the development plan of its research and development centre, including but not limited to, its location and scale. The Group will continue allocating sufficient resources on the research and development area. In addition, the Group will also explore merger and acquisition opportunities domestically and globally, which may bring in new technology and technical knowhow to enhance the Group's research and development and production capabilities and new business to diversify the Group's business and customer base.

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

The Group achieved total consolidated sales of approximately RMB3,269.33 million, representing an increase of approximately 23.3% compared to the corresponding period last year (RMB2,652.45 million). The increase was mainly due to the increase of sale of N20 engines and introduction of crankshaft, which was partially offset by the decrease in demand for the Group's traditional engines and decrease in selling price of engine components, during the year.

In respect of the engines business segment, the Group recorded approximately 19.3% increase in segment revenue, from approximately RMB2,373.60 million in 2014 to approximately RMB2,831.21 million in 2015. The increase was mainly due to increase in sale of N20 engines. Sales volume of engines decreased approximately 3.6% from around 234,200 units in 2014 to around 225,800 units in 2015. The decrease was mainly due to a decrease in the sales of traditional engines during the year, which was partially offset by an increase in the sales of N20 engines, from around 9,300 units in 2014 to around 43,800 units in 2015.

In respect of the engine components segment, the Group recorded approximately 57.1% increase in segment revenue, from approximately RMB278.85 million in 2014 to approximately RMB438.12 million in 2015. The increase was mainly due to the introduction of crankshaft in 2015. The Group sold around 159,900 units of crankshaft and around 1,129,900 units of connection rod in 2015. There was an increase in the sales of connection rod from around 1,047,800 in 2014 to around 1,129,900 in 2015, representing around 7.8% increase in the sale volume of connection rod as compared with 2014, which was mainly due to an increase in the demand for vehicles equipped with N20 engines.

The consolidated cost of sales in 2015 amounted to approximately RMB2,759.22 million, up by 30.0% when compared to approximately RMB2,122.10 million recorded in the corresponding period last year. The increase of cost of sales was mainly due to the increase in raw material costs due to change in product mix and depreciation expenses.

The gross profit margin of the Group decreased from approximately 20.0% in 2014 to approximately 15.6% in 2015, which was mainly due to the increase in the sales of engines with lower profit margin, and the decrease in the selling prices of engine components in 2015.

Other income and gain increased from approximately RMB44.13 million in 2014 to approximately RMB72.71 million in 2015, representing an increase of approximately 64.8%. The increase was mainly due to full-year contribution from the existing lease and an increase of government grant received in 2015.

Selling and distribution expenses increased by approximately 2.7%, from approximately RMB64.42 million in 2014 to approximately RMB66.14 million in 2015, representing approximately 2.4% and approximately 2.0% of the revenue in 2014 and 2015 respectively. The increase was mainly due to the increase in transportation costs.

Administrative expenses increased by approximately 20.2%, from approximately RMB117.91 million in 2014 to approximately RMB141.77 million in 2015, representing approximately 4.4% and approximately 4.3% of the revenue in 2014 and 2015, respectively. The increase was mainly due to an increase in staff costs as a result of an increase in headcounts to support the Group's daily operation, office expenses and depreciation expenses.

Finance costs increased by approximately 14.4%, from approximately RMB43.59 million in 2014 to approximately RMB49.88 million in 2015. The increase was mainly due to an increase in bank borrowing to finance the acquisition of assets in 2015.

Other expenses and losses increased by approximately 75.3% from approximately RMB30.85 million in 2014 to approximately RMB54.08 million in 2015, which was mainly due to the increase in unrealised foreign exchange translation loss recognized in 2015.

The Group's profit before tax decreased by approximately 14.6% from approximately RMB317.02 million in 2014 to approximately RMB270.76 million in 2015.

Income tax expenses increased by approximately 1.4% from approximately RMB45.47 million in 2014 to approximately RMB46.09 million in 2015. The increase was mainly due to the movement of deferred tax assets.

For the year 2015, the net income attributable to owners of the Company was approximately RMB224.67 million, representing an approximately 17.3% decrease from approximately RMB271.55 million in 2014. Basic earnings per share in 2015 amounted to approximately RMB0.175, compared to approximately RMB0.211 in 2014.

### **Liquidity and financial resources**

As at 31 December 2015, the Group had approximately RMB288.21 million in cash and cash equivalents (31 December 2014: RMB353.95 million), and approximately RMB112.18 million in pledged bank deposits (31 December 2014: RMB181.56 million). The Group had trade and other payables of approximately RMB1,193.03 million (31 December 2014: RMB1,377.72 million), bank borrowings due within one year in the amount of approximately RMB350.50 million (31 December 2014: RMB220.50 million), and bank borrowings due after one year in the amount of approximately RMB737.80 million (31 December 2014: RMB367.14 million).

### **Capital structure**

As at 31 December 2015, the Group's total assets was approximately RMB5,154.52 million (31 December 2014: RMB4,742.80 million), which was funded by the following: (1) share capital of approximately RMB10.47 million (31 December 2014: RMB10.50 million), (2) reserves of approximately RMB2,668.96 million (31 December 2014: RMB2,449.79 million) and (3) total liabilities of approximately RMB2,475.10 million (31 December 2014: RMB2,282.51 million).

## **Contingent liabilities**

During the year, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising cash. The Group considers that the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable banks in the PRC.

## **Pledge of assets**

As at 31 December 2015, the Group pledged certain of its land use rights, buildings, plant and machinery with an aggregate carrying value of approximately RMB153.86 million (31 December 2014: RMB172.86 million) to certain banks to secure certain credit facilities granted to the Group.

As at 31 December 2015, the Group also pledged bank deposits in the amount of approximately RMB112.18 million (31 December 2014: RMB181.56 million) to certain banks to secure certain credit facilities granted to the Group.

## **Gearing ratio**

As at 31 December 2015, the Debt-to-Equity ratio, computed by dividing total liabilities by total equity attributable to owners of the Company, was approximately 0.92 (31 December 2014: 0.93).

As at 31 December 2015, the gearing ratio, computed by dividing bank borrowings by total equity attributable to owners of the Company, was approximately 41% (31 December 2014: 24%). The increase in gearing ratio was mainly due to the increase in total bank borrowing as a result of the finance of the acquisition of property, plant and equipment during the year with bank borrowings.

## **Investment properties**

In 2015, certain portion of the Group's premise located in Shenyang was leased to BMW Brilliance Automotive, which generates rental income of approximately RMB31.59 million for the year ended 31 December 2015 (2014: RMB12.29 million).

## **Foreign exchange risks**

The Group's functional currency is RMB. Since the Group has certain assets and liabilities, such as receivables, payables, bank borrowings and cash and cash equivalents, denominated in foreign currencies, such as United States Dollar and Hong Kong Dollar, the Group is exposed to foreign currency translation risk.

The Group has and will continue to monitor its foreign exchange risks and may consider hedging its foreign currency exposure, if and when necessary. There were no hedging transactions outstanding as at 31 December 2015.

## **Employees and remuneration policy**

As at 31 December 2015, the Group employed approximately 1,805 employees (31 December 2014: approximately 1,697). Employee costs amounted to approximately RMB181.04 million for the year ended 31 December 2015 (31 December 2014: approximately RMB165.19 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is based on their performance.

## **Significant investments**

On 21 January 2015, Mianyang Xincheng (including its branches) entered into various agreements, including assets transfer agreement, agreement on operation site, consulting service and technical agreement, raw materials supply agreement and purchase agreement on finished crankshaft, with BMW Brilliance Automotive in connection with the acquisition by Mianyang Xincheng (including its branches) of the crankshaft production line, and subsequent arrangements for the operation of the crankshaft production line and supply of finished crankshafts to BMW Brilliance Automotive. The consideration for the said acquisition was finalised at approximately RMB384.57 million. The transaction was completed in April 2015.

Details of the transactions are set out in the announcement of the Company dated 21 January 2015 and the circular of the Company dated 18 February 2015.

Save as disclosed, there were no other major acquisition and disposal of subsidiaries and associated companies undertaken by the Group during the year ended 31 December 2015.

## **Capital commitment**

As at 31 December 2015, the Group had capital commitments of approximately RMB786.42 million (31 December 2014: RMB545.31 million), of which contracted capital commitments amounted to approximately RMB138.33 million (31 December 2014: RMB151.45 million), which is primarily related to the capital expenditure in respect of acquisition of property, plant and equipment, and new engine development.

## **CHANGE IN USE OF PROCEEDS**

As set out in the section headed “Use of Proceeds” in the prospectus of the Company dated 28 February 2013 and 2014 annual report of the Company, the Company intended to use approximately 11% of the net proceeds, which is approximately RMB64.59 million, from the global offering of the Company’s shares for the construction of a new research and development center in Chengdu. After listing, the Group diversified its business to luxury passenger vehicle segment. The Group has been supplying engines and engine components to BMW Brilliance Automotive since 2014. The Group would like to revisit the positioning of its research and development centre in light of change in its business scope. Currently, the Group is still discussing with its business partners regarding, among others, the positioning, location and scale of the Group’s research and development centre. The final decision has not yet been decided.

The Group entered into engine components business by way of acquisitions, which were financed by bank borrowings and working capital. The Group decided to apply the unutilised proceeds of RMB59.59 million to replenish its working capital, which will then be used to fund the Group’s normal operation, product development and the expansion of the Group’s production capacity.

The Board is of the view that the change in use of proceeds as stated above will facilitate the Group’s long-term development plan, and therefore, is in the interest of the Company and its shareholders as a whole.

## **DIVIDEND**

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2015 (2014: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The Company’s forthcoming annual general meeting will be held at 9:00 a.m. on Thursday, 2 June 2016.

The Hong Kong branch register of members of the Company will be closed from Tuesday, 31 May 2016 to Thursday, 2 June 2016, both dates inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Thursday, 2 June 2016 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting. In order to qualify for attending the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 30 May 2016.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2015, the Company repurchased a total of 4,196,000 shares of the Company on the Stock Exchange at an aggregate consideration of HK\$6,702,800 excluding transaction costs. The repurchased shares were subsequently cancelled. The repurchases were effected by the Board for the enhancement of shareholders' value in the long term. Details of the shares repurchased are as follows:

Month of repurchase in 2015	Number of shares repurchased	Price per share		Aggregate consideration paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
August	1,066,000	1.69	1.58	1,744,670
September	<u>3,130,000</u>	1.67	1.53	<u>4,958,130</u>
Total	<u><u>4,196,000</u></u>			<u><u>6,702,800</u></u>

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standards of corporate governance, consistent with the needs and requirements of the business and its shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has complied with all code provisions of the CG Code throughout the year ended 31 December 2015.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code for the year ended 31 December 2015.

## REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the consolidated financial statements of the Group for the year ended 31 December 2015.

At present, the audit committee comprises Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive directors. Mr. Chi Guohua is the chairman of the audit committee.

## **PUBLICATION OF ANNUAL REPORT**

The 2015 annual report of the Company containing the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises two executive directors: Mr. Wu Xiao An (also known as Mr. Ng Siu On) (*Chairman*) and Mr. Wang Yunxian (*Chief Executive Officer*); two non-executive directors: Mr. Qi Yumin and Mr. Tang Qiao; and four independent non-executive directors: Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.

By Order of the Board  
**Xinchen China Power Holdings Limited**  
**Wu Xiao An**  
**(also known as Ng Siu On)**  
*Chairman*

Hong Kong, 23 March 2016

\* *for identification purposes only*